

PORT OF SEATTLE
MEMORANDUM

DATE: June 26, 2009

TO: Audit Committee

FROM: Melinda Miller, Director, Real Estate Portfolio & Asset Management

SUBJECT: Ninety-day follow-up to internal audit report of the Bell Harbor International Conference Center management services agreement No.488, Audit Period January 1, 2005 through December 31, 2007

Summary of Audit Findings and Management Actions:

Finding: a. *Lack of an Established Level of Monitoring Related to the Third-party Employee Compensation Costs Paid by the Port*

Action: As part of the annual budget review with CHI, Management will request details of the bonus compensation plan and review the acceptability of the plan.

Finding: b. *Unsubstantiated Methodology or Support for Cost Allocation*

Action: As part of the annual budget review and approval with CHI, Management will review and approve the proposed allocation of CHI staff that is partially assigned to Bell Harbor. Any significant changes during the year will be reported in the monthly reporting package.

As requested by the Audit Committee, we have reviewed the 2009 allocations and found them reasonable.

Finding: c. *Improper Advance of Public Funds for Private Activities*

Action: By the end of 2006, to tighten controls, BHICC had stopped paying any expenses on behalf of CTA or other CHI-managed facilities (e.g. WTCSE). In all cases, these expenses were properly reimbursed. CHI accounting personnel for BHICC and WTCSE have been advised to pay only invoices directly related to those facilities.

Finding: *d. Improper Classification of Expenses*

Action: As Management reviews the financial reports on a monthly basis, we will continue to ask the questions necessary to ensure that CHI is booking accounting transactions in accordance with Port policy.

The specific issues identified in the audit have been corrected. BHICC is no longer booking pass-through expenses on a net basis. Effective in 2008, revenue from pass-through transactions has been recorded on a gross basis and the related expenses have been recorded as an operating expense.

Finding: *e. Ineffective Monitoring of Sales Activity to CHI and its Affiliates*

Action: So that Port staff can better monitor related-party sales activity in the future, the monthly reporting package has been expanded to include formal communications on related-party activity including related-party use of the BHICC facility and services.